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BMS - Q3 2018 Bemis Company Inc Earnings Call

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OVERVIEW:

Co. reported 3Q18 results. Expects 2018 adjusted EPS to be $2.77-2.82.

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PRESENTATION

Operator

Good day, and welcome to the Bemis Third Quarter 2018 Earnings Conference Call. Today's conference is being recorded. At this time, I would now like to turn the conference over to Erin Winters, Director of Investor Relations. Please go ahead.

Erin M. Winters - *Bemis Company, Inc. - Director of IR*

Thank you. Good morning, everyone. Welcome to our third quarter 2018 conference call. Today is October 25, 2018. After today's call, a replay will be available on our website, bemis.com, under the Investor Relations section.

Joining me for this call today are Bemis Company's President and Chief Executive Officer, Bill Austen; our Senior Vice President and Chief Financial Officer, Mike Clauer; and our Vice President and Chief Accounting Officer, Jerry Krempa. Following Bill and Mike's comments on our business and outlook, we will answer any questions you have. (Operator Instructions) At this time, I'll direct you to our website, bemis.com, under the Investor Relations tab, where you'll find our press release and supplemental schedules.

On today's call, we will also discuss non-GAAP financial measures as we talk about our performance. Reconciliations of these non-GAAP measures to GAAP measures that we consider most comparable can be found in the press release and supplemental schedules on our website.

And finally, a reminder that statements regarding future performance of the company made during this call are forward-looking and are subject to certain risks and uncertainties. Actual results may differ materially from historical, expected or projected results due to a variety of factors. Please refer to Bemis Company's regular SEC filings, including the most recently filed Form 10-K to review these risk factors.

Now I'll turn the call over to Bill.

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Thank you, Erin, and good morning, everyone. We delivered another strong earnings quarter, in line with our expectations. Our teams did an excellent job of delivering our plan despite headwinds from currency and freight. Year-to-date adjusted earnings per share have increased 18% compared to last year and adjusted operating profit is up $20 million.

I continue to be encouraged by our actions to improve operationally, to lay the foundation for long-term growth and to deliver our earnings commitments. The Agility mindset to fix, strengthen and grow Bemis continues to permeate our thinking and actions. Our progress goes beyond creating an effective cost structure through the strengthen and grow aspects of Agility, we are building a strong foundation to position our business strategically, to penetrate short run opportunities and drive value for the long term.

During 2018, we have hired new sales reps who are incentivized to pursue and win our new business targets, established our core spec offering to ensure we quickly and appropriately leverage our existing innovative product portfolio, completed robust customer account reviews to focus our sales efforts and uncover growth opportunities and developed and implemented a broad range of operational and sales process improvements such as a simplified application process for new customers, a quick quoting procedure, a faster sample role delivery process and a shorter lead time offering. Simply put, our approach aligns our people, assets, processes and products to serve the pockets of growth available in North America.

Early customer feedback has been positive, and we continue on pace to reach our target of $25 million of incremental short-run business during 2018. Over the long term, we will continue to serve our solid base of long-run business while adding in these identified short-run opportunities.

I'll turn the call over to Mike now for a review of the financials and then I'll come back to discuss our planned combination with Amcor.

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Thanks, Bill, and good morning. Today, I will discuss the financial details of our segments and total company followed by comments on the balance of 2018.

U.S. Packaging segment. During the third quarter, our U.S. business performed in line with our expectations. Sales dollars of $688.4 million were up 2.4% compared to the prior year, reflecting higher selling prices partially offset by unit volume decline of 2%. Approximately half of this volume decline related to the infant care business at our Shelbyville, Tennessee facility that we exited this year, and the remainder is simply a function of timing and a stronger-than-normal third quarter last year.

U.S. Packaging sales are within our expectations and include the pace toward our full year target of $25 million of incremental short-run business. U.S. Packaging operating profit of $93.4 million was lower than the $99.6 million last year. You will recall that during the third quarter last year, profits benefited $4 million from the reversal expenses related to specific customers under an incentive.

U.S. profits this third quarter reflects the benefits of Agility and improving operations, partially offset by freight costs, current-year customer incentives and the impact of stronger full year results on employee pay-for-performance awards, again all within our expectations.

Turning to Latin America Packaging. Third quarter sales of $148.3 million were down 19.3% as compared to the prior year, driven by a 23.7% decrease from currency. Remaining organic growth of 4.4% was driven by increased selling prices and mix versus 1 year ago, offset by unit volumes down 15%, driven primarily by the impact of some laundry detergent packaging volume in Brazil that is converting to another format.

To a lesser extent, unit volumes were impacted by one customer's conversion to a smaller-sized packaging format, which impacts volumes but not profits and also by some fine-tuning of our portfolio at a couple of plants where we had some high mix, low margin products that we decided to exit.

Latin America operating profit of $8 million increased from $7.3 million last year. Currency translation hurt profits by $1.7 million, and the implementation of high inflation accounting in our business in Argentina hurt profits by another $1.4 million, leaving an operational improvement of $3.8 million during the third quarter, which is driven by planned variable and fixed cost reductions implemented due to the challenging economic environment in Brazil, partially offset by the volume impact -- margin impact of our customer who's converting their laundry detergent to another packaging format.

We continue to focus on what we can control in this region. The environment for our business in Brazil is stabilizing, and we will continue to deliver our planned cost reductions initiated 1 year ago, given the economic environment in Brazil. Our business will be well-positioned as the economy improves.

Turning to the Rest of World Packaging. Our Rest of World business delivered another strong quarter. Third quarter sales of $189.7 million were up 6% compared to the prior year. Currency translation decreased sales by 0.8%. The acquisition of Evadix increased sales 1.2%. Organic growth of 5.6% reflects increased unit volumes of 4% and increased price and mix.

Strength in our Global Healthcare Packaging business continued. Rest of World Packaging operating profit increased to $22.2 million compared to $17.3 million in the prior third quarter. This improvement was driven primarily by the impact of strong volumes in Healthcare Packaging and solid operating performance throughout the segment.

Now on to consolidated Bemis results. Total company SG&A expense of $90.9 million for the third quarter decreased $5 million compared to the prior year, reflecting Agility savings and strong cost controls, partially offset by inflation and the impact of achieving annual pay-for-performance targets in 2018 plan.

Total company research and development expense was $9.3 million, down slightly from the prior year and in line with our expectations. Other operating income was $4.4 million, down from $7.8 million last year. During the prior year, there were some unique items driving benefits such as the true-up of accruals related to a prior divestiture. Current year results are in line with a more normal trend for this category.

Interest expense was $18.9 million compared to $16.7 million last year due primarily to increased rates. Income tax for the third quarter was 23% as compared to 32.2% (sic) [29.2%] here, driven primarily by lower rates due to the U.S. Tax Reform. Operating cash flow of $142 million this quarter increased from $99 million in the prior year. Restructuring and other transaction cash costs were $16 million this year and $6 million 1 year ago. Primary working capital as a percentage of sales is 14.6% at September 30, improved from 15.2% 1 year ago and within our target range of 14% to 16%. Total company net debt to adjusted EBITDA was 2.4x at September 30, 2018.

Turning to 2018 guidance. We maintain the midpoint of $2.80 per share with our updated 2018 adjusted EPS range of $2.77 to $2.82 as compared to our June -- guidance in June, we do have headwinds from currencies in Brazil and Argentina, the folding box business in Brazil that is now confirmed as transitioned to the new format for the entire second half of the year and the impact of no share repurchases as limited by the pending merger with Amcor.

However, we did a good job of overcoming these headwinds in Q3 and expect to continue with strong operational performance, particularly in the U.S. as we have plans underway to strongly implement -- control costs during holiday shutdowns. Our current guidance range contains many of the same assumptions we shared at the beginning of the year. We continue to expect that Latin America and Rest of World Packaging to deliver 100 basis points profit improvement for the year and continue to expect Agility benefits of $35 million in both top and bottom of our range. And we continue to expect headwinds from reinstating pay-for-performance and customer incentives.

Where we are in the range will depend on a few factors: currency and the macroeconomic environment in Brazil and Argentina; input costs such as freight and our ability to offset them; and our ability to tightly manage costs and operational performance during the seasonally slow fourth quarter.

Turning to cash flow. We are maintaining our full year cash from operations guide in the range of $410 million to $430 million. Total expected restructuring and other transaction costs, including our 2018 guidance, are $60 million, of which approximately $12 million is related to the announced merger with Amcor. Our teams are doing a great job of pushing hard on cash flow during the fourth quarter, which will help us overcome what otherwise would have been a cash flow headwind versus our July guidance. We continue to expect capital expenditures in the range of $150 million to $160 million for 2018. We continue to expect our GAAP tax rate at approximately 23% for 2018.

As we head into the fourth quarter, we are focused on delivering our operating plan and continuing to find ways to drive value and position our business successfully for the long term. I will now turn the call back to Bill.

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Thanks, Mike. We had a good quarter in line with expectations. In early August, we announced the plan to combined with Amcor to create the global leader in consumer packaging, which I will speak to next. But first, with that announcement as the backdrop, I would sincerely like to thank our global leadership team for its diligence in keeping our regional and functional teams focused on the objectives required to deliver our operating plan. Great job by leadership and great job by all of the teams around the world. Let's remain focused on delivering the year.

Turning to the combination. These 2 organizations will drive significant value for shareholders, employees, customers and the environment over the long term. Bemis shareholders will have the opportunity to benefit from a significantly increased dividend and the value creation driven from not only the $180 million of cost synergies identified as part of the transaction but also additional potential revenue synergies.

All internal workstreams supporting regulatory filings and integration planning are on pace to our expectations. And we remain on track for the transaction to close in the first quarter of 2019 after regulatory and shareholder approvals are received.

For Bemis, this is the next exciting chapter in our evolution, and our employees will carry forward the Bemis legacy as they showcase their skill and passion for providing inspired packaging solutions as part of the global leader in consumer packaging that is being created through this transaction. Until the transaction closes, we will continue to operate as an independent company and will remain focused on serving our customers and delivering our operating plans.

We are making progress to improve Bemis today and for the future. We are delivering our plans, which include 100 basis point improvement in operating profit in both Latin America and Healthcare Packaging. We are finding ways to continuously improve operational effectiveness and efficiency in our factories and our administrative functions. We are serving our customers better through improved quality and service, and we are laying a strong foundation for long-term net growth, bolstered by our Agility efforts to penetrate short-run opportunities.

I'm proud of our business. We have an outstanding customer base, a committed and talented workforce, a comprehensive and innovative product portfolio, a strong asset base and good positions in the markets we serve. We are confident and focused as we position our business for the future.

With that, I'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Ghansham Panjabi from Baird.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is Matt Krueger sitting in for Ghansham. So what end markets are growing within your U.S. Packaging business? And which end markets could represent a potential headwind in the years to come? And then can you elaborate on what specific factors are driving growth? Or maybe some of the headwinds that we could expect?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Okay. Let's talk first about what's driving growth right now. And you'll recall our whole Agility program that we put in place on the strengthen and grow portion of Agility. The fix portion of it helps us get our fixed and variable costs down and it has aided us in doing that significantly. But now when we looked at the growth portion, we focused on short-run business. And that was primarily business that in the past we had not attacked because it was at smaller to middle-sized customers. We weren't set up for it. We're now set up for it through some of the recapitalization efforts we've gone through. And we've -- just this year, when we undertook this workstream through Agility, we've onboarded 26 new customers in the small to midsized category. We established a target at the beginning of the year to achieve $25 million of growth in 2018 through this category of small to midsized customers, and we're on track to exceed that right now. And it's in the categories where we have leadership positions. So let's talk about meat, talk about cheese, talk about liquid. Those are the categories where we're really focused and have a right to win, and we brought business in, in those categories as well as some nonfood customers and nonfood categories that we, in the past, had not traditionally played in.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Great, that's helpful. And then maybe one quick question on the cost side. How do you feel that Bemis is positioned to operate within a cost environment that appears biased to the upside? And what actions have you taken to counter some of the persistent inflation that we're seeing, both in terms of raw materials and then also other costs: freight, labor, et cetera?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes. Well, we look at the raw material -- rising raw materials as that's part of our normal pass-through to customers. So we don't necessarily focus on what happens with rising raw materials, we focus on how our PAFs, price adjustment formulas, pass that rising raw material through to the customer base. Your question is really focused more so on the productivity, efficiency, effectiveness side of the equation. And through Agility, as I've mentioned already, we've worked hard to get our fixed and variable costs down, which is really lean efforts, quality efforts, service efforts and also plant consolidation efforts that was allowed to -- we allowed to get ourselves there through the recapitalization of older assets to new equipment. So it's the day-to-day blocking and tackling that allows us to stay ahead of this rising cost environment, and that's what we've seen all throughout this year.

Operator

And our next question comes from Debbie Jones of Deutsche Bank.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

2 questions for me. The first, Bill, actually -- you did actually exceed on Agility. The volumes are actually in line with, I think, what we were expecting. I just got a little confused by the laundry decline. I understood that to be more of a shift to another format but in some way, you would see a bit of a benefit from. Can you just clarify what that is?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, sure. We measure that category in tons. The format that we were in prior is a much heavier weighted, height by weight, okay? Pounds or kilograms, however way you look at it, than the format that it has been shifted to. So when we measure in tons, you obviously get the same amount of packaging and a lot less weight, so volume by ton goes down. The other piece there on the volume in Latin America, through the economic situation in Latin America, one of our large customers moved away from a large-format ice cream container to a smaller-format ice cream container. Ice cream is still selling but we also measure that in tons, so going from a larger to a smaller, you obviously lose tons in the calculation. And lastly, a piece there that Mike mentioned in his script was we exited some very high mix, extremely low-margin business. And when we actually calculated it through production, it was a breakeven at best. It was basically candy trays. If you think about Valentine's Day, the inside of a candy box, you get all different shapes and sizes and high mix, low margin in a rigid factory is not something that was suitable for manufacturing. So we walked away from some of that business. But on expectation in total for the volume that we were thinking about in Latin America. And we're more so focused on profit and how do we make profit in that region because it is a region of very high inflation. Our teams are diligently pushing inflation through so that we're not left holding the inflation within our P&L. Through Agility, we've created a tremendous amount of leverage in that operating model in Latin America and as we push volume through and push inflation through, we are focused on profit.

Deborah Anne Jones - *Deutsche Bank AG, Research Division - Director*

Second question on the sustainability subject. This is nothing new, but the 2 things that I feel like we're hearing a lot about is CPGs wanting to use more recycled materials, number one, and then also wanting to have a package that is recyclable. And one thing that's confusing to me is, it doesn't seem to me that there's enough infrastructure to actually provide a lot of recycled material on the plastics side. Can you comment on that? And I mean more so if this were to increase going forward. And then two, where is Bemis in terms of being able to help customers to use that kind of virgin material that then could be recycled?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Sure, sure. Let me -- let's talk to the first part of that first, the actual collection process. So if you just compare U.S. with Europe, Europe is very much further ahead in that area, in that if you go to communities in Europe, you will see bins where people take different pieces and components of plastic packaging and/or paper packaging and/or glass and/or anything else for that matter. And the communities are behind it. In the United States, we don't have that drive and that push just yet, it will take a while. But we have created a material that is being trialed at many CPGs today that we call Encore. And it is a completely recyclable plastic material that we've created ourselves through certain types of processing. This is now a completely recyclable package. On it is a how to recycle code. And if you were to go to that website How To Recycle, you would be able to, in your area for instance, if you put in your zip code, it would tell you where you could take that material to be -- to get into the recycle stream. That's one aspect. The other aspect is some of the things that we're doing in our factories to recycle in-process waste so that we can reuse it back into our virgin materials and combine that with multilayer structures is what we're doing internally. Externally, again, we have a lot of customers that are asking us to trial and look at -- they're asking to trial our Encore material as well as where could they use Encore as part of their portfolio.

Operator

And our next question comes from George Staphos of Bank of America Merrill Lynch.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

This is actually Molly Baum sitting in for George. My first question on just the Rest of World segment. You had cited growth in Healthcare Packaging, but could you by chance kind of break down what your performance was in that segment by geography? And where you were seeing growth and where you potentially saw some slowdown relative to either expectations or to what we saw in 2Q?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, sure. So we look at Rest of World, we look at Asia, Europe and Healthcare Packaging. So Asia and Europe are quite small within our portfolio. And in Asia, we were flat. But recall last year, our third quarter in Asia was significant. We had double-digit growth in Asia 3Q last year. Europe, low single-digit growth in Q3. In our Health Care, we had mid-single-digit growth in our Health Care business. And that's really been created -- hats off to the Health Care guys. They have a very robust new product pipeline, which you need to have in that business because it's a 3- to 5-year incubation period for a customer to take the new package through validation and qualification. So you need to have a very long pipeline of new projects coming to the market. And our team in Health Care, our Global team in Health Care has got that robust pipeline that allows them to grow at better than market rates. So market for our type of Healthcare Packaging is growing in about 4%, and we're exceeding that rate because of the pipeline.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. That's very helpful. And then my second question, just to follow up on Matt's question about the U.S. Packaging segment. Last quarter, you had talked about how 19 out of the top 25 CPG accounts that you're working with, you had seen positive growth with them. Can you talk about kind of what the trends were for the larger run businesses and the CPG accounts that you were seeing in 3Q?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, sure. I'll just break that down a little bit into segments. So in the protein segment, I'm talking meat and dairy, if you will. We saw nice growth in both of those categories as well as in the liquid category. We continued to see good growth because several years ago, we put in some assets to get focused on that, and we have a team that is truly out there driving growth in liquid. And where we would see the categories of weakness would be in, let's call it, the center of the store kinds of categories, what we call consumer -- general consumer -- grocery, consumer and industrial. However, on the industrial side, through the -- some of the new sales team that we brought onboard to attack small and midsized customers, we're onboarding some new industrial type customers and nonfood customers, which are helping in that category.

Operator

And our next question comes from Edlain Rodriguez of UBS.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Bill, one quick question. I mean, for 2018, you have that goal of achieving $25 million in short-run businesses and you're on track for that. As we look forward into like '19, '20, like does that number increase significantly, like leaps and bounds? Or is it going to be like at a more moderate pace?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, Edlain, we're not going to share at this point any 2019 targets. But if you just think through it though, the roll-forward of that business, that will continue to grow and we're not stopping. I mean, we've hired these sales people to go out and attack that segment of the market and they're going to continue to do that. We've incentivized them to do that as well. So as they get further onboarded, they continue to gain more momentum. They figure out how best to how -- we get finer at what are the good targets to go after. We're going to see that category continue to grow.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Okay. And one quick one on Latin America. As you fine-tune those low-margin products you're walking away from them, like how much of that is still left to be done?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

We're in a pretty good place right now. This piece that we got rid of was just this really high mix, low margin, you're changing dyes out, you're changing resins over. It just didn't make sense, so we just exited it. But we're in a really good place when we look at the portfolio of customers, the portfolio of products and what we're continuing to sell going forward.

Operator

Our next question comes from Salvator Tiano from [Analyst].

Salvator Tiano - *Vertical Research Partners, LLC - Analyst*

Salvator from Vertical Research. So I have -- my first question would be on the U.S. Packaging volumes. We did see some volumes declined in excess of that infant care business and talked about everything that's going well in the U.S. But on this 1%, I guess, decline that was not in the infant care business, where did it come from? Was it some customer losses, just lower volumes at existing customers? And what kind of end markets were here to blame?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, we don't look at any one quarter as being a trend, let's call it, right? Last year's Q3, we were up 2%. So from the perspective of U.S. CPG landscape, that's quite significant volume increase. So year-on-year, both year-over-year basis down 1%. I'm not -- that doesn't excite or get us excited. What we're really looking at is we've hired 14 new people. We've added capabilities in our commercial area to how do we get quotes out quicker; the account reviews that we've put in place to identify where we can go and attack that market; a quick turn sample roll process that has gone from many, many weeks down to 5 days; our core spec program that allows the new sales team to go out with a good, better, best specification to sell to the client base; and we've onboarded 25 new customers in this middle- to short-run type of business. So I look at that and say the process is on track. It's moving the business forward, and we're going to exceed the $25 million of target that we set for ourselves at the beginning of the year in this category. I don't necessarily look at the 1% down and say, "Okay, something's gone wrong."

Salvator Tiano - *Vertical Research Partners, LLC - Analyst*

Sure. And just my second question. You noted that some of the margin softness in the U.S. was due to some pay-for-performance and some customer incentives in Q3. So firstly, is it possible to quantify in the same manner, you said $4 million a year ago were the reversals, accruals. What was the impact in 3Q, first of all? And secondly, can you elaborate on the way these accruals work in terms of was it for new businesses generated in 3Q? Or was it for successes that you had in 1Q and 2Q and just you accrue the results right now?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

First of all, we'll talk about incentives to customers first. Basically, at the beginning of the year, you've got a program put in place, and based on how they're performing, you accrue the incentive throughout the year. And so it's year-to-date. So as an example, every quarter is going to have some incentive in it based on how business is trending. So last year, we reversed that, but one specific customer that had been accrued through the second quarter, that reversed in the third quarter. One would assume that those accruals are now in place. They are in place every quarter this year for that specific customer. As for pay-for-performance, again, it's an annual target. Last year with our performance, essentially, we had very little pay-for-performance expensed and accrued as we went through the year. So this year, targets were reset and we achieved our full year internal objectives, the people will earn a certain incentive.

Operator

Our next question comes from Daniel Rizzo of Jefferies.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

You mentioned that the $25 million in small to mid-cap sales are coming from the new sales folks. I was wondering if it's all coming from them or if you have kind of repositioned your existing sales teams to kind of focus on this month as well? Or is it just addition? Which is it?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes. No, it's a combination of both, Dan. It's a combination of the new folks that we've onboarded but it's also now the fact that we've set up the process is internal, so that some of this shorter-run business comes from our existing accounts as well. So it's not just coming from the new guys, it's coming -- new people, I should say. It's coming from the entire sales force. But the focus of the new sales force is to go after these regional smaller accounts.

Daniel Dalton Rizzo - *Jefferies LLC, Research Division - Equity Analyst*

Will you be hiring more new sales force to do the same?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

We're feeling good about what we've got on board right now. And depending on how we continue to be successful and at that rate, we'll determine whether we need more.

Operator

(Operator Instructions) And our next question comes from Arun Viswanathan from RBC Capital Markets.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just wanted to ask about medical packaging. Seems like you had some strong success there. What's your outlook for that business kind of going into next year? And are there any possibilities to get larger there? I know you're in front of the Amcor transaction, but any thoughts on expansion in that market?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes. We have a very good Health Care business globally. We run it globally for the reason of being effective, working with customers more closely, driving specifications around the world for that type of package through that single source of customer. We continue to see this as a very nice space for us, and it will be a good space for us for years to come. It grows better than GDP, and we focus on it with innovation and technology so that we create, as I mentioned earlier, that strong robust pipeline.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

And on Latin America, I guess obviously, you've discussed the trade down to different products in the past and now you're seeing the conversion. Do you expect sales would moderate and -- or at least flatten out, I guess, next year? Or do you think headwinds will continue from a volume perspective?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

Yes, the customers we talk to think that things will moderate or stabilize, is probably a better way to put it. Once they get through this election this coming weekend, obviously, there'll be some volatility postelection. But as the new government comes into place, they feel that things will stabilize within that region. We -- again, as I've said many times, that through Agility, we have taken our fixed and variable costs down in that region significantly and created a tremendous amount of leverage in our P&L, so that as volumes come back and continue to -- as they -- we continue to increase, we will continue to leverage the P&L and get fall-through.

Operator

Our next question comes from Anthony Pettinari from Citi.

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

This is actually Bryan Burgmeier sitting in for Anthony. On the $12 million in cash costs related to Amcor that you called out, can you clarify what offsets you're able to find in order to maintain guidance from cash operations? Sorry if I missed that.

Michael B. Clauer - *Bemis Company, Inc. - Senior VP & CFO*

Just -- our Q3 was a little better than we expected, and we're very focused on delivering, generating cash flow in Q4. I wouldn't say there's any specific thing that offsets it.

Bryan Nicholas Burgmeier - *Citigroup Inc, Research Division - Associate*

Okay, understood. And then on Latin America, is it possible to say what volumes would have been if you exclude the customer shifts that you called out?

William F. Austen - *Bemis Company, Inc. - President, CEO & Director*

I don't have that number off the top of my head, sorry.

Erin M. Winters - *Bemis Company, Inc. - Director of IR*

One way to think about it, Bryan, is that the minus 15, let's say, 10 of that is related to folding box and then the remainder is related to the mix topic Bill talked about as well as the customer changing format. So that explains the full 15 which we'd consider flat.

Operator

And it appears we have no additional questions at this time.

Erin M. Winters - *Bemis Company, Inc. - Director of IR*

Very good. Thank you. This concludes our conference call.

Operator

Thank you all for your attention. This concludes today's call. All participants may now disconnect.